

## Message Text

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ACTION EB-06

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-01 H-01 PRS-01 NIC-01 SAM-01 /063 W

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 2647

INFO USLO PEKING

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E.O. 11652: N/A

TAGS: ETRD, EEWT, EIND, CH, HK, US

SUBJECT: PRC EXPORTS TO US MANUFACTURES IN HK PROPOSED BY  
AMCHAM

SUMMARY: AMCHAM IS RECOMMENDING THAT PRC EXPLORE EXPORT  
POTENTIALS TO US MANUFACTURERS IN HONG KONG AS INDIRECT  
MEANS OF EXPANDING EXPORTS TO US.

1. AT CANTON FAIR LAST WEEK, LOCAL AMCHAM DELEGATION ADVISED  
CCPIT AND MACHIMPEX OFFICIALS THAT PRC HAS BEEN OVERLOOKING  
NEARBY-HONG KONG OPPORTUNITY FOR INDIRECTLY, BUT SIGNIFICANTLY,  
EXPANDING THEIR EXPORTS TO THE US. AMCHAM'S PROPOSAL IS THAT  
US MANUFACTURERS IN HONG KONG (CURRENTLY TOTALING 165) COULD  
BUY LARGE VOLUMES OF PRC COMPONENTS AND RAW MATERIALS TO  
BE INCORPORATED INTO THEIR END PRODUCTS EXPORTED PRINCIPALLY  
TO THE US. ALTHOUGH NOT SHOWING UP STATISTICALLY AS  
EXPORTS TO THE US, SUCH PRC EXPORTS COULD HELP TAKE THE  
PRESSURE OFF PRC'S UNFAVORABLE TRADE BALANCE. IN ADDITION  
TO ADVANTAGES OF PROXIMITY, AMCHAM SAYS PLAN WOULD ENABLE  
PRC TO BYPASS MFN, PACKING, TRANSPORTATION AND OTHER  
PROBLEMS IN EXPANDING EXPORTS TO US COMPANIES VIA THEIR  
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HONG KONG SUBSIDIARIES. AMCHAM PUBLICLY ESTIMATES SUCH  
PRC EXPORTS COULD REACH 100 TO 150 MILLION DOLLARS ANNUALLY.

HOWEVER, ESTIMATES ASSUME IMPORTANT QUALIFICATIONS NOT RECOGNIZED PUBLICLY: FULL COOPERATION BY BOTH PRC AND US MANUFACTURERS IN HONG KONG AND AN UPSWING IN US IMPORT ORDERS FROM HONG KONG. AFTER SAMPLING US MANUFACTURERS HERE ON THEIR POTENTIAL PRC PRODUCT INTEREST, DELEGATION PLANS RETURN TO FAIR NOVEMBER 3 FOR MORE DETAILED EXPLORATORY DISCUSSIONS ON WHICH OF SUCH PRODUCTS PRC CAN SUPPLY IN TERMS OF COMPETITIVE PRICES, DESIRED SPECIFICATIONS AND QUALITY STANDARDS AND REQUIRED QUANTITIES AND DELIVERY DATES. DELEGATION REPORTS THAT CCPIT AND MACHIMPEX OFFICIALS ARE EAGER TO START DETAILED EXAMINATION OF AMCHAM PROPOSAL. DELEGATION ALSO PLANS DISCUSS PROJECT WITH OTHER STATE TRADING CORPORATION OFFICIALS AT FAIR.

2. AMCHAM DELEGATION INCLUDES ACTING AMCHAM PRESIDENT BOB GOODWIN(ALCOA), BOARD MEMBER BILLBAKER (GE'S ELECTRONIC INDUSTRY, LTD.), CHINA COMMERCIAL RELATIONS COMMITTEE CHAIRMAN LOU SAUBOLLE (BANK OF AMERICA) AND AMCHAM'S EXECUTIVE VP HERB MINICH. AT PRESS CONFERENCE BAKER EXPRESSED CONFIDENCE THAT LARGE IMPORT POTENTIAL EXISTS WITH LOCAL ELECTRONICS INDUSTRY AND EXPECTS PROPOSAL TO BE EQUALLY APPLICABLE TO LOCAL TEXTILE AND OTHER INDUSTRIES.

3. COMMENT: IMPLICIT IN AMCHAM'S PROPOSAL ARE SEVERAL COMPLEX AND DIFFICULT QUESTIONS:

(A) WILL THE PRC BE ABLE AND WILLING TO MAKE AVAILABLE THE DESIRED TYPE OF PRODUCTS ACCORDING TO REQUIRED SPECIFICATIONS, QUALITY STANDARDS, QUANTITIES, DELIVERY DATES AND COMPETITIVE PRICES?

(B) EVEN IF THE PRC COULD MEET ALL OF THESE DETAILED CONDITIONS--INVOLVING LENGTHY NEGOTIATIONS, PLANNING AND/OR PRODUCTION PROCESSES--WOULD THE PRC BE WILLING TO GIVE US MANUFACTURERS IN HONG KONG THE KIND OF PREFERENTIAL CONSIDERATION IMPLIED IN SUCH DEALS? SUCH PREFERENTIAL TREATMENT COULD RISK ADVERSELY AFFECTING THE PRC'S ECONOMIC AND, POSSIBLY EVEN POLITICAL, RELATIONS WITH OTHER IMPORTER AND/OR COMPETING SUPPLIER COUNTRIES. (CURRENTLY, PRINCIPAL SUPPLIERS FOR US MANUFACTURERS HERE ARE JAPAN, TAIWAN, SOUTH KOREA AND EVEN HONG KONG ITSELF.)

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(C) HAVE PURCHASING AGENTS FOR US COMPANIES IN HONG KONG ALREADY CONSIDERED AND, FOR GOOD REASONS, PASSED OVER SUPPLY POTENTIALS FROM NEARBY CHINA?

(D) IN THE FACE OF DECLINING EXPORT ORDERS AND/OR TO AVOID UPSETTING WELL-ESTABLISHED SUPPLY RELATIONSHIPS, WILL US COMPANIES BE INTERESTED IN INITIATING NEGOTIATIONS FOR NEW OR ADDITIONAL SOURCES OF SUPPLY? IF SUCH US COMPANY INTEREST IS NOT FORTHCOMING, HOW WILL AMCHAM EXPLAIN THIS TO THE PRC OFFICIALS?

4. IN TRYING TO IMPROVE CHINA'S TRADE BALANCE WITH THE US, AMCHAM'S IDEA AND INITIATIVE DESERVE COMMENDATION. INITIALLY, AMCHAM'S EFFORTS MAY GENERATE MORE FAIR INVITATIONS AND PRC CONTACTS FOR LOCAL US COMPANIES. THIS COULD LEAD TO A BETTER UNDERSTANDING OF US MARKET REQUIREMENTS AND, EVENTUALLY, MAY EVEN GENERATE MORE PRC EXPORTS. TO THE EXTENT SUCCESSFUL, AMCHAM'S PROJECT COULD ALSO IMPROVE HONG KONG'S EXPORT COMPETITIVENESS.

5. ON THE OTHER HAND, WE BELIEVE THAT AMCHAM WOULD HAVE BEEN WISER TO HAVE COMPLETED A MORE DETAILED STUDY OF THE MANY INHERENT PRACTICAL PROBLEMS AND OBSTACLES--AT LEAST ON A SAMPLING BASIS--BEFORE GIVING THEIR PROPOSAL WIDESPREAD PUBLICITY. HAVING PREMATURELY RESORTED TO PUBLICITY, AMCHAM MAY BE CALLED UPON BEFORE LONG TO EXPLAIN PUBLICLY WHY THE PROJECT MAY NOT BE PROGRESSING. WILL AMCHAM BE PREPARED TO PUBLICLY EXPLAIN THE LACK OF US COMPANY INTEREST OR THE INABILITY OR UNWILLINGNESS OF THE PRC TO SUPPLY THE DESIRED PRODUCTS?  
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